Grand Canyon State Electric
Cooperative Association, Inc.
Your Touchstone Energy Cooperatives

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November 19, 2007

Docket Control
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

Re: *SSVEC Exception to the Final Staff Report and Recommended Opinion and Order (November 6, 2007) for Competitive Procurement Issues; Docket No. E-00000E-05-0431*

Dear Sir/Madam:

Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC") a member-owned cooperative, submits this Exception to the Final Commission Staff Report and Recommended Opinion and Order ("ROO") for Competitive Procurement Issues, dated November 6, 2007. SSVEC focuses its Exception on the requirement that an independent monitor should be used in all requests for proposal ("RFP") processes for procurement of new resources. The Commission should modify this language so that this requirement does not apply to cooperatives.

SSVEC agrees with the Staff recommendations that: (1) a rulemaking on the resource acquisition process should not be instituted and (2) an RFP solicitation process should be the primary resource acquisition tool. As Staff notes, "Arizona's electric utilities have very different characteristics and a "one size fits all" set of procurement rules might not allow for flexibility that each of the utilities needs to fulfill its individual growth requirements."

One of the things which is different about SSVEC is that, SSVEC is a member-owned distribution cooperative. SSVEC has filed an application to become a partial member of Arizona Electric Power Cooperative, Inc. As a partial member, SSVEC will seek to competitively procure some of its own power requirements. SSVEC is also not an Rural Utilities Service ("RUS") borrower.

As a cooperative, SSVEC has only one goal and that is to provide the highest quality service to its members at the least cost. SSVEC, as a cooperative, does not have a financial or any other motivation to self-build versus purchase power from an independent party but only seeks the most reliable, least cost alternative for its members. Because the customers of the cooperative are also its owners and there is no profit incentive, conflict of interest concerns associated with the Cooperatives' competitive procurement are greatly reduced. SSVEC's board of directors is elected by its members and will make competitive procurement decisions that are in the best interest of its members. SSVEC's member-elected board of directors performs the same functions as an independent monitor with regards to the RFP process, bid evaluation, power supply budgets, etc.

SSVEC's lender, the National Rural Utilities Cooperative Finance Corporation, Inc., ("CFC") is also willing to provide the independent monitor functions on behalf of SSVEC. CFC proposes to enter into a separate agreement with SSVEC, in addition to its existing credit agreements, to provide the functions of the independent monitor on a non-binding basis similar to the role of RUS for RUS borrowers. CFC would attempt to meet the ACC requirements of the independent monitor as established by the ROO. As a borrower of CFC, CFC is vitally interested in the financial well being of SSVEC and its members. If cooperatives

are required to hire an independent monitor, this unnecessarily increases the costs of competitive procurement to their members for the reasons stated above.

In the Final Staff Report, Staff states a concern that a utility is always a potential bidder in an RFP process because it could choose to self-build rather than enter into contracts with bidders. Given SSVEC's current financial position, SSVEC will not likely be in a position to self-build without a rate increase.

Concerning using an independent monitor to assure the Commission and bidders in the wholesale market that procedures for selecting new resources are fair, transparent and result in the most economical resource being selected, SSVEC believes there are far less expensive methods to provide these assurances that would be as effective as using an independent monitor. RFP process and bid requirements would provide the majority of these assurances without incurring the cost of an independent monitor. Bids and the procurement process could be provided to and approved by the Commission in advance of issuing a RFP, if the Commission deemed this necessary.

Concerning using an independent monitor to decrease regulatory risk, SSVEC believes that hiring an independent monitor does not significantly decrease the regulatory risk associated with competitive procurement. The ACC will continue to have the authority to deny recovery of purchased power or assets that are competitively procured regardless of whether an independent monitor is used in the competitive procurement process.

In conclusion, an additional monitor should not be required for cooperatives for their procurements. An independent monitor is unnecessary, will increase the required lead-time for

project approval and increase costs without providing additional benefit for the cooperatives, their members or the entities likely to participate in the process.

SSVEC requests that the Commission modify the ROO such that the independent monitor requirement does not apply to cooperatives. Suggested amendment language is attached as Exhibit A.

Very truly yours,

GRAND CANYON STATE ELECTRIC
COOPERATIVE ASSOCIATION

By _____
John Wallace
Director, Regulatory and Strategic Services

**Original and 13 copies** filed with Docket Control this 19th day of November, 2007, with:

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## EXHIBIT A

### SSVEC's Requested Amendments to Competitive Procurement Recommended Opinion and Order

In the ROO at p. 3, line 21, after the word "all" insert the words "investor-owned utilities'".